



County of Los Angeles  
**CHIEF ADMINISTRATIVE OFFICE**

713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012  
(213) 974-1101  
<http://cao.lacounty.gov>

DAVID E. JANSSEN  
Chief Administrative Officer

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February 15, 2007

To: Supervisor Zev Yaroslavsky, Chairman  
Supervisor Gloria Molina  
Supervisor Yvonne B. Burke  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: David E. Janssen  
Chief Administrative Officer

**SACRAMENTO UPDATE**

**Governor's FY 2007-08 Proposed Budget - Estimated Impact on the County**

The introduction of Governor Schwarzenegger's Health Care Reform last month, and recently introduced Health Care proposals by Speaker Nuñez, Senate pro Tem Perata, and the Senate Republican Caucus makes it difficult to assess the County impact of the FY 2007-08 Proposed Budget because these proposals are in the preliminary stage, and lack sufficient specificity to estimate their overall fiscal and programmatic effect. Similarly, the Governor's proposal for Corrections Reform is also in its early stages.

The Proposed Budget, however, does contain some detailed proposals that will affect various County programs. Based on our initial review, the estimated net loss to the County is \$23.7 million. Some of the Budget proposals include the elimination of the \$55 million Integrated Services for Homeless Adults with Serious Mental Illness Program, and a \$25 million Statewide funding reduction for the Substance Abuse and Crime Prevention Act (Proposition 36). On the positive side, the Budget contains \$5.7 million for the Health Care Workforce Development Program, \$50 million for a new Adult Probation Program, and \$53 million to transfer non-violent juvenile offenders from the State to counties. It also contains a proposal, without funding, for the incarceration of non-violent felons with terms of three years or less to serve in county jails.

The attachment provides a breakdown of the estimated impact on the County by program. Please note the table only illustrates the potential loss/gain of State funding, and it does not reflect a definite impact to the County. The Governor's Budget proposal is the first step in the budget process, and the Legislature will now have the opportunity to review and assemble its version of the FY 2007-08 Budget. Assembly and Senate Budget subcommittee hearings are scheduled to start next month.

### **Budget Items of Interest to the County**

**Integrated Services for Homeless Adults with Serious Mental Illness Program (AB 2034).** The Budget proposes elimination of the \$55 million Integrated Services for Homeless Adults with Serious Mental Illness Program, which provides funding to local mental health agencies to act as the single point of responsibility for comprehensive services for individuals who are homeless, at risk of homelessness or incarceration, and have a serious mental illness. The Budget indicates that elimination of the program is possible because similar services are available through the Mental Health Services Act of 2004 (Proposition 63). However, Proposition 63 contains specific language that prohibits the use of these funds to supplant other sources of funding. The Department of Mental Health advises that the elimination of this program would result in a \$17 million loss of revenue and the discontinuation of intensive mental health services to over 1,700 adults with severe mental illness.

**Proposition 36.** The Budget proposes to reduce Proposition 36 funding by \$60 million in FY 2007-08. The proposed reduction is in response to the failure to implement certain reforms which have been suspended by judicial injunction, such as incarceration of Proposition 36 offenders. The Budget proposes to use the funding reduction to increase by \$35 million the Substance Abuse Offender Treatment Program (OTP), which contains some of the reforms of interest to the Administration, and to secure savings of \$25 million on a one-time basis. The estimated impact on the County from this reduction is approximately \$7 million. If the court-challenged reforms to Proposition 36 are not implemented, the Administration proposes moving all remaining Proposition 36 funding to the OTP, which requires a 10 percent county match.

**2008 Presidential Primary Election.** While the Budget does not include a specific proposal to move the Presidential primary election from June to February 2008, numerous reports indicate that the leadership in both houses, and Governor Schwarzenegger support the proposal. Two bills, **SB 113 (Calderon)** and **AB 157 (Plescia)**, have been introduced to move the Presidential primary to February 2008. SB 113, as introduced January 22, 2007, would require that the presidential primary election be held on the first Tuesday in February. SB 113 passed the Senate Floor, by a 31 to 5 vote on February 13, 2007, and it now proceeds to the

Assembly. If enacted, this proposal would require that the next California Presidential primary be held on February 5, 2008.

The County's Registrar-Recorder advises that if the Presidential primary is moved to February, the County would be charged with the responsibility of conducting two Statewide primary elections in 2008, in addition to the November 2008 General Election. It is estimated that the cost for the County would be approximately \$20 million. Additionally, the County is likely to encounter several logistical problems such as shortage of pollworkers due to the high frequency of elections, voter fatigue and preparations for compliance with the Help American Vote Act.

**Incarceration of Non-Violent Felons.** The Budget proposes that beginning on July 1, 2008, non-serious, non-violent felons with terms of three years or less will serve their sentences in county jails. However, the Budget proposal lacks sufficient detail to determine its programmatic impact, and it does not identify funding to cover operational costs. The Administration has indicated that it will work with local governments to address this proposal and its related costs.

**Health Care Workforce Development Program.** The Budget proposes the final \$5.7 million installment of State funds to complete the State's training commitment for healthcare employees, as part of the County's Section 1115 Medicaid waiver.

**New Adult Probation Program.** The Budget proposes \$50 million in FY 2007-08 for a new Adult Probation Program to support local adult probation services targeting the at-risk 18 to 25 year-old probation population, which accounts for the largest percentage of new felon admissions to the State prison system. It is anticipated that the program will be modeled after the Juvenile Justice Crime Prevention Act Program (JJCPA), and that funding will increase to \$100 million in FY 2008-09. The Probation Department estimates that if funding for this program is allocated on a population basis, as it is in the JJCPA Program, the County would receive an estimated \$14.6 million in FY 2007-08.

**Transfer of Juvenile Justice Population to Counties.** The Governor's Budget proposes that starting July 1, 2007, the Division of Juvenile Justice will begin shifting non-violent juvenile offenders from State to local facilities. The Budget includes \$53 million in block grant funding for counties to support the program and housing needs of this population. This proposal is also in its preliminary stages and does not contain sufficient information to estimate the programmatic and fiscal impact on the County.

### **Other Budget Items of Interest**

The following information provides additional details on some of the proposals included in the Governor's Proposed Budget:

**CalWORKs Reforms.** The Budget proposes significant changes to the CalWORKs Program to improve the State's federal performance, avoid possible federal penalties, and save an estimated \$324.4 million. These changes, however, could result in the elimination of financial assistance to an estimated 190,000 children Statewide. The changes include: 1) full family sanctions for CalWORKs families when the adult does not comply with work requirements beyond 90 days; 2) elimination of CalWORKs payments after the 60-month time limit for children when the able-bodied adult fails to meet the Federal work participation requirements; 3) limiting of child-only benefits to 60 months when the parent or caretaker is an undocumented non-citizen, a convicted drug felon or a fleeing felon; 4) changing the CalWORKs and Food Stamp reporting requirement from quarterly to semi-annual effective January 1, 2009.

While the proposed changes primarily affect CalWORKs participants, there is a potential cost shift to the County's General Relief Program, as participants who are terminated from the CalWORKs Program could apply to participate in the GR Program. On January 30, 2007, the Board approved a motion to oppose the Administration's proposals to terminate CalWORKs assistance for children whose parents are sanctioned, time-limited, undocumented immigrants, drug felons, or fleeing felons. The Board also approved a recommendation by Supervisor Burke to support the Administration's proposal for semi-annual reporting for the Food Stamps Program.

**AB 3632 Program.** The 2006 Budget Act provided about one-half of the estimated costs for the AB 3632 Program. The Governor's Budget proposes an additional \$52 million to fully fund the anticipated costs in FY 2006-07. While no funding has been appropriated to cover costs in FY 2007-08, it is anticipated that the Administration will include funding as part of the May Revision to comply with the federal Individuals with Disabilities Education Act, which requires the State to provide mental health services to special education pupils. If the funds are not included, the County would pursue reimbursement through the mandate process.

**Property Tax Administration Program.** As part of the 2005 Budget Act, the State suspended the Property Tax Administration Program (PTAP) for two years with the expectation that the program would be reinstated in FY 2007-08. However, the Governor's proposal does not restore the program in the budget year, and Administration officials have indicated that it would no longer be funded because a recent fiscal analysis showed that the program only offers a marginal benefit to the

State because local governments have more property tax revenue at their disposal as a result of the Vehicle License Fee swap, and the protection of local revenue under Proposition 1A. The County's annual share of PTAP was \$13.5 million.

**Potential Cost of the Governor's Health Reform on the County as an Employer**

One of the requirements of the Governor's Health Care proposal is for employers with 10 or more employees, who choose not to offer health care coverage, to contribute a four percent payroll tax toward the cost of the employees' coverage. The County as an employer offers medical insurance to all full-time and part-time employees working 20 hours or more per week. However, employees who work less than 20 hours per week and student workers are not offered health care coverage.

As indicated earlier in this report, the Governor's proposal lacks sufficient detailed information to determine whether this mandate would require the County, or any other employer, to provide health care coverage for part-time employees who work less than 20 hours per week. If the County must cover these employees, we estimate that it would cost about \$11.8 million annually, based on the lowest cost HMO to supply health insurance to an estimated 3,200 part-time employees. If the County, however, opted to pay the four percent payroll tax of the part-time employees' wages, it would cost approximately \$400,000 per year.

We will continue to keep you advised.

DEJ:GK  
MAL:MR:hg

**Attachment**

c: All Department Heads  
Legislative Strategist  
Local 660  
Coalition of County Unions  
California Contract Cities Association  
Independent Cities Association  
League of California Cities  
City Managers Associations  
Buddy Program Participants

**ESTIMATED IMPACT TO LOS ANGELES COUNTY  
FROM THE GOVERNOR'S FY 2007-08 PROPOSED BUDGET  
(In Millions)**

	<b>FY 2007-08 Governor's Budget</b>
<b><u>Reductions / Unfunded Programs:</u></b>	
Integrated Services for Homeless Adults with Serious Mental Illness Program	(17.0) <sup>(1)</sup>
Substance Abuse Crime Prevention Act Program Reductions (Proposition 36)	(7.0) <sup>(2)</sup>
February 2008 Presidential Primary Election	(20.0) <sup>(3)</sup>
Incarceration of Non-Violent Felons in County Jails	? <sup>(4)</sup>
	<hr/> \$ (44.0)
<b><u>Augmentations / Restorations :</u></b>	
Health Care Workforce Development	5.7 <sup>(5)</sup>
Adult Probation Program (At-risk 18 to 25 year-old population)	14.6 <sup>(6)</sup>
Transfer of Non-Violent Juvenile Offenders to Counties	? <sup>(7)</sup>
	<hr/> \$ 20.3
<b>Estimated Net Impact</b>	<b>\$ (23.7)</b>

## Notes:

- (1) Reflects the estimated impact to the Department of Mental Health based on the elimination of the AB 2034 Program.
- (2) Reflects a preliminary estimate of the potential impact to the County based on the Proposition 36 reductions.
- (3) Reflects the estimated cost to the County to conduct a February 2008 Presidential Primary Election.
- (4) The Governor's proposal does not provide sufficient information to determine the programmatic and fiscal impact on the County.
- (5) Reflects funding to complete the State's training commitment for healthcare workers under the County's 1115 Waiver of 2000.
- (6) Reflects anticipated funding for the County based on the Juvenile Justice Crime Prevention Act formula.
- (7) The Governor's proposal contain sufficient information to estimate the program and fiscal impact on the County.

*This table represents the estimated loss/gain of State funds based upon the Governor's Budget. It does not reflect the actual impact on the County or a department which may assume a different level of State funding or be able to offset lost revenue.*